

FOUNDATIONS IN ACCOUNTANCY

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Recording Financial Transactions

Specimen Exam applicable from June 2014

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Time allowed: 2 hours

ALL 50 questions are compulsory and MUST be attempted.

Do NOT open this paper until instructed by the supervisor.

This question paper must not be removed from the examination hall.

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The Association of Chartered Certified Accountants

FA1
Paper

ACCA

ALL 50 questions are compulsory and MUST be attempted

Please use the space provided on the inside cover of the Candidate Answer Booklet to indicate your chosen answer to each multiple choice question.

Each question is worth 2 marks.

1 Which of the following is an example of capital expenditure?

- A** Paying for refurbishment as part of upgrading a building
- B** Paying carriage outwards in respect of selling goods
- C** Paying legal fees in order to recover customer debts
- D** Paying bonuses to production operatives

2 Vic's receivables ledger balances total \$50,000, which does not agree with his trade receivables control account. The following errors were found:

- (1) A credit note for \$750 was not recorded in the receivables ledger
- (2) A contra entry of \$2,000 was entered in the control account but not in the receivables and payables ledgers.

What should be the total of the balances on his receivables ledger after correcting the following errors?

- A** \$52,750
- B** \$50,000
- C** \$49,250
- D** \$47,250

3 Christa pays her mortgage by instructing her bank to make monthly payments of a fixed amount from her current account. When the mortgage rate changes she issues revised instructions to the bank.

Which method of payment is Christa using?

- A** Standing Order
- B** Payable Order
- C** Direct Debit
- D** Crossed cheque

4 A firm has a credit facility with a local trade supplier. An invoice for purchases has been credited to the supplier's account and debited to the sales account.

Which of the following journal entries will correct the error?

- A** Dr Sales account Cr Supplier account
- B** Dr Supplier account Cr Sales account
- C** Dr Purchases account Cr Sales account
- D** Dr Sales account Cr Bank account

5 Which of the following would be on the credit side of the receivables ledger control account?

- (1) Cash received
- (2) Irrecoverable debts
- (3) Discounts allowed
- (4) Sales

- A** 1, 2 and 3 only
- B** 2 and 4 only
- C** 1 and 4 only
- D** 1, 2, 3 and 4

6 The following is a summary of the petty cash transactions for a week:

Income	\$	Expenditure	\$
Opening balance	500	Travelling expenses	150
Sale of stamps	10	Subsistence expenses	250
Sale of paper	50		

Petty cash is maintained using the imprest system.

What sum should be reclaimed by the cashier at the end of the week?

- A** \$160
- B** \$340
- C** \$400
- D** \$500

7 The balance on the payables ledger control account should be equal to which other figure in the accounting system?

- A** The total of the balances on the individual customers' accounts
- B** The total of the balances on the individual suppliers' accounts
- C** The unreconciled balance on the receivables ledger control account
- D** The balance on the receivables ledger control account reconciled for items in transit

8 Louise introduces her car into her business.

Which parts of the business' accounting equation will change?

- A** Assets and capital
- B** Capital and profit
- C** Liabilities and assets
- D** Capital and liabilities

9 Freya started in business on 1 September. During September she made cash sales of \$6,400 and issued credit sales invoices for \$10,200 of which \$8,600 had been paid.

What would be the balance of the sales account in the general ledger at the end of September?

- A** \$6,400
- B** \$10,200
- C** \$8,000
- D** \$16,600

10 Which of the following journal entries correctly records the credit purchase of plant and equipment?

- | | | |
|----------|------------------------------------|------------------------------------|
| A | Dr Purchase ledger control account | Cr Plant and Equipment |
| B | Dr Cash | Cr Plant and Equipment |
| C | Dr Plant and Equipment | Cr Purchase ledger control account |
| D | Dr Plant and Equipment | Cr Cash |

11 Marvin has a balance of \$3,350 on his sales ledger control account but his list of customer balances totals \$3,500.

Which of the following balances would explain the difference?

- A** The total of sales day book was overstated by \$150
- B** A contra of \$150 has been posted in the customer's individual account but not the control account
- C** A credit note of \$150 has not been recorded in the sales day book
- D** An irrecoverable debt has been accounted for in the control account but not the individual customer account

12 Albert sold 15 units of inventory with a list price of \$40 per unit to Michael. He gives Michael a 10% trade discount and a 5% settlement discount if Michael pays within 30 days.

What will be the total of the invoice that Albert issues to Michael for this transaction?

- A** \$540
- B** \$600
- C** \$510
- D** \$513

13 Which of the following errors would be found by extracting a trial balance?

- A** A transaction has been completely missed in the accounts
- B** The double entries have been made the wrong way round
- C** Different figures have been entered for the debit and credit entries
- D** An expense item has been posted to a non-current asset account.

14 Dion performed a purchase ledger control account reconciliation and found the following errors:

- (1) The purchase day book was overstated by \$720
- (2) A credit note for \$380 was omitted from the day books altogether

Which of the following shows the necessary adjustments to ensure that the balances reconcile at the correct amount?

- A** Dr Purchase ledger control account \$1,100, Subtract \$380 from the list of supplier balances
- B** Dr Purchase ledger control account \$1,100, Add \$380 to the list of supplier balances
- C** Cr Purchase ledger control account \$1,100, Subtract \$380 from the list of supplier balances
- D** Cr Purchase ledger control account \$1,100, Add \$380 to the list of supplier balances

15 Which of the following are benefits of an effective document retention policy to a small business?

- (1) To ensure all documents are stored forever
- (2) To meet legal and tax requirements of the business
- (3) To mitigate risks arising from internal and external disputes of the business
- (4) To increase operational efficiency and maintain control over costs

- A** 1 and 3 only
- B** 2, 3 and 4 only
- C** 1, 2 and 4 only
- D** 1, 2, 3 and 4

16 Hywel purchases goods on credit with a list price of \$100. The supplier gives Hywel a trade discount of 15% and also offers a cash discount of 10% for payment within 30 days.

What is the amount that Hywel will debit to his purchases account?

- A** \$115.00
- B** \$85.00
- C** \$76.50
- D** \$75.00

17 Which of the following are valid reasons for keeping a payables ledger control account?

- (1) To obtain a figure for payables to be included in the statement of financial position
- (2) To assist in the location of errors
- (3) To check the accuracy of entries made in personal accounts

- A** 1 and 2 only
- B** 2 and 3 only
- C** 1, 2 and 3
- D** 1 and 3 only

18 A credit sale of goods for \$51 to J Davis was entered in the accounts as \$15.

What type of error has occurred?

- A** Compensating error
- B** Error of omission
- C** Error of principle
- D** Error of transposition

19 Which of the following represents the correct imprest amount in an imprest petty cash system?

- A** Notes and coins in the cash box – vouchers for payments – IOUs
- B** Notes and coins in the cash box + vouchers for payments – IOUs
- C** Notes and coins in the cash box – vouchers for payments + IOUs
- D** Notes and coins in the cash box + vouchers for payments + IOUs

20 Which of the following statements are true about a good coding system for financial transactions?

- (1) It enables a company to easily extract data for management analysis
- (2) It provides a unique code for each item within the system
- (3) It provides codes that are uniform in format
- (4) It requires management authorisation before creation of new codes

- A** 1 and 2 only
- B** 3 and 4 only
- C** 2, 3 and 4 only
- D** 1,2, 3 and 4

21 Which one of the following is the correct posting from the purchase day book?

- | | |
|---|------------------------------------|
| A Dr Purchases account | Cr Payables ledger control account |
| B Dr Purchases account | Cr Cash book |
| C Dr Payables ledger control account | Cr Purchases account |
| D Dr Cash book | Cr Purchases account |

22 Annabel's cash book shows her to be \$2,030 overdrawn. A bank reconciliation, however, shows that a standing order payment for \$365 had been entered in the cash book twice, and that a dishonoured customer's cheque for \$275 had been debited in the cash book rather than credited.

What is Annabel's true overdraft position?

- A** \$1,845
- B** \$1,940
- C** \$2,120
- D** \$2,215

23 Narvinda buys goods from Jamal for \$2,500. He returns half of the goods on 15 May.

Which of the following documents would be issued by Jamal for the return of the goods?

- A** Invoice
- B** Credit note
- C** Debit note
- D** Remittance advice

24 If a cheque is marked 'Account Payee Only, Not Negotiable' what does this mean?

- A** The cheque should be paid only into the account of the named drawer
- B** The cheque should be paid only into the account of the named payee
- C** The paying bank can deposit the cheque in an account other than the payee
- D** The receiving bank can deposit the cheque in an account other than the payee

25 The following statements relate to the aged receivables analysis:

- (1) It provides information about debt collection efficiency to the management
- (2) It identifies when payments are due to be made to suppliers

Which of the above statements are correct?

- A** 1 only
- B** 2 only
- C** Both the statements
- D** Neither of the statements

26 A credit entry into a ledger account represents which of the following?

- A** Increase in an expense
- B** Increase in income
- C** Increase in an asset
- D** Increase in drawings

27 Iwan's payables ledger showed that \$2,300 was owed to suppliers at the start of the week. During the week Iwan made purchases of \$3,900 although he paid \$900 of this in cash. He also paid suppliers \$1,000 by cheque.

What is the closing balance on his payables ledger?

- A** \$4,000
- B** \$4,300
- C** \$5,200
- D** \$6,100

28 Which of the following errors will require an entry to a suspense account to correct it?

- A** A credit purchase was completely omitted from the accounting records
- B** A credit sale was recorded as a cash sale
- C** The payment of wages was debited to the rent account instead of the wages account
- D** The cash sale was recorded correctly in the sales account and credited in the bank account

29 What document is usually sent every month from the supplier to the customer, listing all the transactions between them during that month?

- A** Invoice
- B** Receipt
- C** Statement
- D** Credit note

30 A company has the following year end payroll information

Gross salaries and wages	\$285,350
Income tax deducted	\$61,063
Employers' pension contributions	\$26,786
Employees' pension contributions	\$23,034

What is the company's total payroll cost for the year?

- A** \$312,136
- B** \$274,107
- C** \$396,233
- D** \$308,384

31 Walter sells goods to Ninevah with a list price (exclusive of sales tax) of \$4,300, offering a 4% trade discount. Sales tax is 17.5%

What amount should be recorded for this transaction in the sales account (to the nearest \$1)?

- A** \$4,850
- B** \$4,128
- C** \$5,053
- D** \$3,513

32 Which of the following statements regarding sales tax in the trial balance is true?

- A** Output tax and input tax are debit balances
- B** Output tax and input tax are credit balances
- C** Output tax is a credit balance and input tax is a debit balance
- D** Output tax is a debit balance and input tax is a credit balance

33 Which of the following should be classified as current liabilities?

- (1) Trade receivables
- (2) Sales tax payable
- (3) Trade payables
- (4) Drawings

- A** 1 and 2
- B** 2 and 3
- C** 3 and 4
- D** 2 and 4

34 Sally's balance in her cash book is \$160 debit. However her bank statement shows a different amount. On investigation, Sally discovered the following:

- 1. A cheque that Sally paid into the bank for \$40 is still outstanding
- 2. A cheque for \$60 paid by Sally to Molly has not yet been presented
- 3. Sally has forgotten to record a cash withdrawal of \$30
- 4. When Sally inspects her bank statement she sees that the bank has deducted charges of \$15 from her account

What is the balance on Sally's bank statement?

- A** \$95
- B** \$135
- C** \$185
- D** \$225

- 35** Avalon gives his customers individual trade discounts from the list price and a general 5% cash discount for all invoices settled within seven days of issue. A new customer, Nolava, negotiates a 25% trade discount. His transactions during June are:

12 June Buys goods with a \$5,000 list price
15 June Returns goods with a \$1,000 list price as faulty
16 June Pays half of the net balance on his account

How much does Nolava owe Avalon at the end of June?

- A** \$1,425
- B** \$1,500
- C** \$2,000
- D** \$2,850

- 36** Richard has a balance of \$350,000 on his payables ledger control account at the end of May.

What does this mean?

- A** He has bought \$350,000 of goods in May
- B** He is owed \$350,000 by his customers
- C** He owes \$350,000 to his suppliers
- D** He has paid \$350,000 to his suppliers in May

- 37** Melanie is a sales tax registered trader. Her purchases day book shows purchases of \$2,000, net of sales tax at 17.5%.

What double entry will Melanie post at the end of her day's trading?

- | | | | |
|----------|----------------------|----------------------|---------------------|
| A | Dr Purchases \$2,000 | Cr Payables \$2,000 | |
| B | Dr Purchases \$2,350 | Cr Payables \$2,350 | |
| C | Dr Payables \$2,350 | Cr Purchases \$2,000 | Cr Sales tax \$350 |
| D | Dr Purchases \$2,000 | Dr Sales tax \$350 | Cr Payables \$2,350 |

- 38** Seb packs goods on an assembly line. He is paid a different amount each week, depending on his output of assembled goods.

By what method of remuneration is Seb paid?

- A** Piecework
- B** Commission
- C** Hourly rate
- D** Salaried

39 The following ledger balances make up a company's trial balance:

	\$
Sales	76,700
Purchases	26,800
Non-current assets	31,400
Payables	18,200
Receivables	32,300
Cash at bank	14,200
Capital	9,800

What is the total of the debit column of the trial balance?

- A** \$94,900
- B** \$104,700
- C** \$105,900
- D** \$209,400

40 Susan is a computer equipment dealer. She uses the following coding system for her financial transactions:

1st number	2nd number
100 Purchases	300 Cash
200 Sales	400 Payables
	500 Receivables

Danielle buys computer equipment worth \$2,000 on credit from Susan.

Which of the following would be the code recorded on the invoice issued by Susan?

- A** 100300
- B** 100400
- C** 200300
- D** 200500

41 In Dalveer's cash receipts book for the month of June the trade receivables column totalled \$6,570.

What does this amount represent?

- A** The amount invoiced to Dalveer's customers during June
- B** The amount owed by Dalveer's customers at the end of June
- C** The amount received from Dalveer's customers during June
- D** The amount of discounts given to Dalveer's customers during June

42 Jenny has a bank balance of \$550 at the start of the week. During the week the following transactions occur:

- Day 1 She sells goods on credit for \$876
- Day 2 She receives a cheque for \$400 from a credit customer
- Day 3 She purchases office equipment with a list price of \$1,000 but receives a 10% discount for paying immediately by cheque

How much does Jenny have in the bank at the end of the week?

- A** \$2,826
- B** \$400
- C** \$50
- D** \$126

43 Which of the following are books of prime entry?

- (1) Sales day book
- (2) Payables ledger
- (3) Journal
- (4) Cash book

- A** 1, 3 and 4
- B** 1, 2 and 4
- C** 2, 3 and 4
- D** 1, 2 and 3

44 Pimlico owes Vauxhall for some goods it recently bought. Pimlico are settling the invoice early to obtain a discount.

What is the correct double entry for this in Vauxhall's books?

- | | | | |
|----------|-------------|----------------------|----------------------|
| A | Dr Vauxhall | Cr Bank | Cr Discount received |
| B | Dr Vauxhall | Dr Discount received | Cr Bank |
| C | Dr Bank | Cr Discount allowed | Cr Pimlico |
| D | Dr Bank | Dr Discount allowed | Cr Pimlico |

45 Fred works on a car factory assembly line and is paid a rate of \$4.50/hour for a 35 hour week. All overtime is paid at time and a half. In addition a piecework rate of \$25 for every car assembled each week is paid.

Last week Fred worked 46 hours and completed the assembly of three cars.

How much is Fred's gross pay for the week?

- A** \$282.00
- B** \$256.75
- C** \$306.75
- D** \$385.50

46 Which of the following will help to reduce overdue balances in receivables ledger accounts?

- A** Improved debt collection methods
- B** An increase in the bank overdraft facility
- C** Credit customers paying invoices more slowly
- D** An increase in credit facilities to customers

47 Carion sells the following goods for cash during January:

		Net Price \$	Sales Tax \$
5 Jan	To Maurice	386	68
19 Jan	To Harris	715	125
28 Jan	To Merton	430	75

What are the correct entries in Carion's general ledger?

- | | | | |
|----------|------------------|--------------------|--------------------|
| A | Dr Sales \$1,799 | Dr Sales tax \$268 | Cr Cash \$2,067 |
| B | Dr Cash \$2,067 | Cr Sales \$1,799 | Cr Sales tax \$268 |
| C | Dr Sales \$1,531 | Dr Sales tax \$268 | Cr Cash \$1,799 |
| D | Dr Cash \$1,799 | Cr Sales \$1,531 | Cr Sales tax \$268 |

48 What journal entry would be posted if a sole trader starts a business by introducing his cash savings and a car into the business?

- | | | | |
|----------|-------------------|-------------------|------------|
| A | Dr Motor vehicles | Dr Bank | Cr Capital |
| B | Dr Bank | Cr Motor vehicles | Cr Bank |
| C | Dr Capital | Cr Motor vehicles | Cr Bank |
| D | Dr Motor vehicles | Cr Capital | Cr Bank |

49 Malindra sent a payment to Nicholas along with a document detailing the items and invoices the payment related to.

What is this document known as?

- A** Debit note
- B** Credit note
- C** Remittance advice
- D** Delivery note

50 The following statements relate to the sales ledger control account:

- (1) Settlement discounts will not be recorded in the sales ledger control account
- (2) The allowance for the irrecoverable debts is recorded in the sales ledger control account

Which of the above statements are correct?

- A** 1 only
- B** 2 only
- C** Both 1 and 2
- D** Neither 1 nor 2

(100 marks)

End of Question Paper

Answers

- 1 A
- 2 D $(\$50,000 - 750 - 2,000)$
- 3 A
- 4 C
- 5 A
- 6 B $(\$250 + 150 - (50 + 10))$
- 7 B
- 8 A
- 9 D $(\$10,200 + 6,400)$
- 10 C
- 11 D
- 12 A $(\$15 \times 40) - (10\% \text{ of } 600)$
- 13 C
- 14 A
- 15 B
- 16 B $(\$100 - 15\% \text{ of } 100)$
- 17 C
- 18 D
- 19 D
- 20 D
- 21 A
- 22 D $(-\$2,030 - \$550 + \$365)$
- 23 B
- 24 B
- 25 A
- 26 B
- 27 B $(\$2,300 + \$3,000 - \$1,000)$
- 28 D
- 29 C
- 30 A $(\$285,350 + \$26,786)$
- 31 B $(\$4,300 - 4\% \text{ of } 4,300)$
- 32 C
- 33 B
- 34 B $(\$160 - \$40 + \$60 - \$30 - \$15)$
- 35 B $\frac{1}{2} \text{ of } (\$4,000 - 25\% \text{ of } \$4,000)$
- 36 C
- 37 D
- 38 A
- 39 B $(\$26,800 + \$31,400 + \$32,300 + \$14,200)$
- 40 D
- 41 C
- 42 C $(\$950 - \$1,000 - 10\% \text{ of } 1,000)$
- 43 A
- 44 D
- 45 C $(\$4.50 \times 35) + (\$6.75 \times 11) + (3 \times \$25)$
- 46 A
- 47 D
- 48 A
- 49 C
- 50 D